

**Tax Tip**  
**Week of August 24, 2009**

**Offshore Accounts**

One of the simplest forms of tax evasion is to invest funds offshore in countries that have legislation ensuring bank secrecy. For example, a wealthy Canadian resident invests \$1,000,000 in a Swiss bank. Switzerland has historically been the gold standard of bank secrecy. Let's assume the funds generate a 5% return or \$50,000. The individual decides not to claim the investment income on his tax return. The theory is simple. CRA will never be aware of the investment income since Swiss bank laws ensure secrecy.

Despite the fact it is tax evasion and totally illegal, it is one of the more common types of fraud. In the past it has been difficult for CRA to identify the lost income. However, consider the recent US tax case involving the Swiss banking giant UBS AG. Despite the Swiss law that makes disclosing bank secrets a criminal offense, the US Department of Justice has successfully required the Swiss bank to turn over the financial records of Americans that have invested with this financial institution. It is estimated there is just under 20 billion dollars in unreported income.

It may be safe to assume the following:

- The US Justice Department will go after Swiss banks
- They will go after banks in other jurisdictions that do not trade financial information with the US
- CRA will eventually get access to this information

The bottom line for Canadian taxpayers is that hiding funds offshore is illegal and the chances of getting caught have just increased. If you have used this tactic in the past, it is now appropriate to not only cease the activity, but also consider approaching CRA under the amnesty program to avoid criminal prosecution.

On August 20<sup>th</sup>, the Minister of National Revenue, Jean-Pierre Blackburn, announced that Canada will commence discussions with the Swiss bank in September.